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4 March 1983

MEMORANDUM FOR: Deputy Director for Intelligence

THROUGH: Director, Near East/South Asia Analysis

FROM: [REDACTED] 25X1
NESA/AI/E

SUBJECT: Pessimism about Egypt's Stability
(Ref: NIC 1542-83)

1. The observations [REDACTED], cited in the referenced memorandum, highlight some of the same themes that we have stressed in our production during the past several months. These are: the importance of domestic economic problems as Mubarak's principal vulnerability; a widespread desire among Egyptians for the government to "do something" about these problems; and a resulting impatience when the government does not implement quick and dramatic solutions. We do not believe, however, that this adds up to a political death warrant for Mubarak, as suggested [REDACTED]. Instead, it implies a potential for trouble if some crisis or confluence of crises (say, a major breakdown of public services in overcrowded Cairo, or a serious outbreak of Coptic-Muslim violence) catalyzes popular frustrations. No one can predict when this might happen, and it need not happen within the 18-24 month time frame posited by Amoco. Nor would a single outburst of public discontent necessarily topple the regime. In any event, the Mubarak government is acutely aware of the hazards it faces, and has carefully avoided missteps that could trigger a crisis.

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2. Mubarak certainly will not try anything "risky" to redirect the Egyptian economy; he and other Egyptian leaders realize that the kind of major reforms needed to set the economy on the road to robust health would be politically suicidal. The key question is what Mubarak will do if severe shortages of foreign exchange or other immediate demands force him to take some of the hard decisions that he--like Sadat--has so far managed to avoid. Mubarak has repeatedly defended his cautious policies on the ground that Egypt needs stability, not shock treatment. There is insufficient evidence to conclude that, in a crunch, he would "not act decisively in any area."

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5. Mubarak's political stock has had both ups and downs during the 17 months of his presidency, with the fluctuations reflecting foreign as well as domestic events. The observations [REDACTED] may reflect one of the low points of this cycle; we do not believe that there is an overall downward trend. [REDACTED]

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Mubarak's standing probably has improved somewhat, partly because of his trip to the US and Western Europe. The US Embassy in Cairo reports generally favorable reaction to the trip among informed Egyptians both in and out of government, who now see Mubarak as having firmly established his leadership credentials. Egypt's gradually improving relations with the other Arab states are probably also enhancing Mubarak's domestic position to some extent.

6. [REDACTED] correctly point to one of the darker clouds to appear recently--viz., falling oil prices. Egyptian officials already are contemplating reductions in their ambitious economic growth targets, and in the coming months they also will have to consider seriously cuts in the expensive and politically sensitive consumer subsidies, and perhaps in military expenditures as well. In these circumstances, US economic and military aid will be more important than ever.

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